

**Report on Audit of Direct and Indirect Costs
for Contractor's Fiscal Year 2002**

September 2003

Reference Number: 2003-IC-205

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

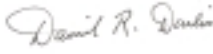


INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 17, 2003

MEMORANDUM FOR DAVID A. GRANT
DIRECTOR OF PROCUREMENT
INTERNAL REVENUE SERVICE

FROM:  Daniel R. Devlin
Assistant Inspector General for Audit (Headquarters Operations
and Exempt Organizations Programs)

SUBJECT: Report on Audit of Direct and Indirect Costs for Contractor's
Fiscal Year 2002 (Audit #200310002.046)

The Defense Contract Audit Agency (DCAA) examined the contractor's August 2, 2002, certified final indirect cost rate proposal and related books and records for the reimbursement of Fiscal Year 2002 incurred costs. The purpose of the examination was to determine the allowability and allocability of direct and indirect costs, and to recommend contracting officer determined indirect cost rates for the period February 1, 2001, through January 31, 2002. The proposed rates apply primarily to the contractor's flexibly priced contracts.

The DCAA examination of the incurred cost rate proposal disclosed \$126,337 of questioned costs in various indirect pools. The DCAA determined that the questioned amounts did not have a significant impact on the rates. However, of the unallowable amount, the DCAA considers \$24,893 subject to the level one penalty and \$1,066 subject to the level two penalty in accordance with the provisions of the Federal Acquisition Regulation¹ Part 42.709.

The DCAA stated that the contractor's proposed indirect rates, subject to a qualification, are acceptable as adjusted by their examination. Additionally, claimed direct costs, subject to a qualification, are acceptable and provisionally approved pending final acceptance.

¹ Federal Acquisition Regulation, 48 C.F.R. pt 1-53 (2002).

The DCAA qualified its audit report because the results of the assist audits for the subcontract costs had not been received. The results of the assist audits are considered essential to the conclusion of this examination.

The information in this report should not be used for purposes other than those intended without prior consultation with the Treasury Inspector General for Tax Administration regarding their applicability.

If you have any questions, please contact me at (202) 622-8500 or John R. Wright, Director at (202) 927-7077.

Attachment

NOTICE:

The Office of Inspector General for Tax Administration has no objection to the release of this report, at the discretion of the contracting officer, to duly authorized representatives of the contractor.

The contractor information contained in this report is proprietary information. The restrictions of 18 U.S.C. § 1905 must be followed in releasing any information to the public.

This report may not be released without the approval of this office, except to an agency requesting the report for use in negotiating or administering a contract with the contractor.

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